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INFO RUEHBJ/AMEMBASSY BEIJING 0099  
RUEHWR/AMEMBASSY WARSAW 0507  
RUEHCD/AMCONSUL CIUDAD JUAREZ 0487  
RUEHIT/AMCONSUL ISTANBUL 0484  
RUEHSO/AMCONSUL SAO PAULO 0447  
RUFOADA/JAC MOLESWORTH AFB UK  
RUEKJCS/SECDEF WASHINGTON DC  
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RHEBAAA/DEPT OF ENERGY WASHINGTON DC  
RUEATRS/DEPT OF TREASURY WASHDC  
RUEAIIA/CIA WASHINGTON DC  
RHEFDIA/DIA WASHINGTON DC

C O N F I D E N T I A L SECTION 01 OF 03 LAGOS 000602

SIPDIS

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STATE FOR AF/W, INR/AA, DS/IP/AF, DS/ICI/PII, DS/DSS/OSAC  
OSLO FOR HELENA SCHRADER  
DOE FOR GPERSON, CAROLYN GAY  
TREASURY FOR ASEVERENS, SRENENDER, DFIELDS  
COMMERCE FOR KBURRESS  
STATE PASS USTR FOR ASST USTR FLISER  
STATE PASS TRANSPORTATION FOR MARAD  
STATE PASS OPIC FOR ZHAN AND MSTUCKART  
STATE PASS TDA FOR NCABOT  
STATE PASS EXIM FOR JRICHTER  
STATE PASS USAID FOR GWEYNAND AND SLAWAETZ

E.O. 12958: DECL: 08/30/2017

TAGS: [EPET](#) [ENERG](#) [PGOV](#) [NI](#)

SUBJECT: NIGERIA ANNOUNCES REORGANIZATION OF ENERGY SECTOR

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Classified By: Consul General a.i. Donald McConnell; Section 1.4 (B,D)

11. (C) Summary: On August 29, the Government of Nigeria announced the decision to "unbundle" the Nigerian National Petroleum Corporation (NNPC) and to create five new independent agencies. International oil companies (IOCs) were aware of the plan to restructure, but did not expect it to take place so quickly. Whether the problems associated with implementing the new plan will outweigh the potential gains in efficiency from the restructuring remains to be seen. End Summary

12. (U) On August 29, the Government of Nigeria (GON) announced the decision, taken that day by the Federal Executive Council, to "unbundle" the Nigerian National Petroleum Corporation (NNPC) and to create five new independent agencies. Minister of State for Energy (Petroleum) announced to the press that the Ministry of Petroleum Resources will become the National Petroleum Directorate (NPD). A new National Oil Company (NOC) will assume the core functions of the NNPC. The National Petroleum Investment Management Services Company (NAPIMS), a division of NNPC, will be replaced by the National Oil and Gas Assets Holding and Management Company (NOGAHAMC). The Department of Petroleum Resources (DPR), currently a division of the Ministry of Petroleum Resources, will become the Petroleum Inspectorate Commission (PIC). The Petroleum Products Distribution Agency will replace the Pipeline Product Marketing Company (PPMC), also a division of NNPC.

13. (U) According to press reports, the energy sector reorganization is the harmonized result of recommendations by the Oil and Gas Reform Committee, commissioned by former President Obasanjo in 2000 and chaired by the Honorary Strategic Advisor to the President on Energy Rilwanu Lukman; and by a committee established by the National Council on Privatization to examine the oil and gas industry. The harmonized report, called "Roadmap for the Restructuring of the Oil and Gas Industry in Nigeria" was reportedly submitted to President Yar'Adua in June by the Secretary to the Government of the Federation, Alhaji Babagana Kingibe.

#### National Oil Company Free of Government Control

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14. (U) Under the new arrangement, the NOC will conduct itself like a private oil and gas company. The Petroleum Inspectorate Commission (PIC) will be an agency independent of the Ministry of Energy, and will be empowered to provide effective monitoring of the industry. Fuel importation will be supervised both by PIC and the Petroleum Products Distribution Agency (PPDA), and the refineries will be privatized. Plans also call for further unbundling of the Nigerian Gas Company as well as pipeline and storage facilities into gas transmission and gas distribution/marketing companies, press reports stated.

15. (U) The Federal Executive Council also mandated implementation of the National Oil and Gas Policy (NOAGP) to take place within the next six months. One of the goals of the policy is to make Nigeria self sufficient in the energy sector, according to press reports. In a third, related move, the FEC approved the constitution for the National Council on Energy (NCE) to implement and fine-tune the NOAGP, which includes the restructuring of the energy sector. The NCE will be chaired by President Yar'Adua. Other members of

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the Council are Vice President Goodluck Jonathan, who will function as Deputy Chair; Odein Ajumogobia, Minister of State for Energy (Petroleum); Minister of State for Energy (Gas) Olusina Emmanuel, and Minister of State for Energy (Power) Mrs. Fatima Ibrahim; Attorney General and Minister of Justice Michael Aondoakaa; Minister of Finance Shamsudeen Usman; Minister of National Planning Sannusi Daggash; Strategic Advisor to the President on Energy Rilwanu Lukman; and National Security Advisor General Ibrahim Mukhtar. Four additional members will be appointed by the President.

16. (U) In press reports, Minister Ajumogobia said that the establishment of the NCE is a condition precedent to the declaration by the President of a state of emergency in the energy sector.

#### IOCS Expected Reorganization But Timing a Surprise

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17. (C) John Chaplin, Managing Director of ExxonMobil, told Poloff that the company had known "bits and pieces" of the reorganization plan, but that the timing of the announcement had come as a surprise. The company had seen the Lukman Committee report as early as 2002. Chapman believes the thrust of the reform is to give Nigeria a national oil company that functions the way a company should. The change would allow the NOC to control its own revenue and to raise needed funds from the capital markets. This is an important change, Chaplin noted, because currently NNPC is completely in the dark as to its profits or losses; requests for profit and loss statements go unanswered because NNPC does not have them. The impact of the change in NAPIMS is less clear, he said. Work with NAPIMS is a challenge for international oil companies (IOCs), but at least now the IOCs can go over NAPIMS head for occasional help from NNPC to force decisions to be made. NAPIMS, because it approves all contracts, is seen by most as "an opportunity to make money"; a whole industry has grown up in which people insert themselves into

the contracting process in the hope of making money on the deal. Whether the changes will help with this problem or create other efficiencies remains to be seen, he said.

¶18. (C) Ann Pickard, Regional Executive Vice President for Shell Oil, said that she and executives from Shell Petroleum and Development Corporation (SPDC) of Nigeria met earlier in the week with the President and the Minister of State for Energy (Petroleum) and received "no signals" that the restructuring was imminent.

¶19. (C) O.B. Haffner, Corporate Affairs Manager of Total Nigeria Ltd. said he had been aware that the restructuring was coming. Speaking about the downstream end of the business, which he oversees, Haffner said that replacing the Petroleum Products Distribution Agency with the new Pipeline Product Marketing Company (PPMC) could help assure that petroleum products are more evenly distributed around the country, to the benefit of states in the northern part of the country. Currently, massive quantities of imported fuel are pumped into the tanks of marketers in Lagos, where the bulk of the imported product is sold. The marketers then truck the remainder to other parts of the country for sale at prices higher than the regulated price.

#### Reorganization Will Not Affect Existing Contracts

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¶10. (C) Olisa Agbakoba, President of the Nigerian Bar Association, downplayed fears expressed by some that the reorganization would interfere with existing contracts or ongoing court cases to which NNPC is a party. Under the law of succession, he said, the reorganization will not absolve the successor of the legal obligations of its predecessor. All legal aspects of the changes will be worked out in due course, he said. Peter Esele, President of the Petroleum and Natural Gas Senior Staff Association of Nigeria (PENGASSAN), told Poloff that the unions were "fine with the reorganization."

¶11. (C) Comment: Few people expected the Government to move so quickly to effectuate this restructuring, which has been under study for seven years. Whether the problems associated with implementing the new structure outweigh the potential gains in efficiency from the restructuring remains to be seen.

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